

# Keppel Corporation Ltd

Stable energy sales, weak real estate markets



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## SINGAPORE | CONGLOMERATE | 3Q23 UPDATE

- 3Q23 revenue fell 6.0% YoY, dragged lower by weak property sales in China and India, after the rebound in 1H. 3Q23 net profit was higher YoY, but no financial detail was provided.
- The distribution-in-specie of 1 KREIT unit for every 5 Keppel shares has been approved by shareholders. This is equivalent to S\$0.18 per Keppel share.
- Upgrade to BUY due to recent price correction. We maintain our earnings projections. After accounting for the KREIT distribution, our TP is revised lower to S\$7.52 (prev. S\$7.70).

### Highlights

S\$m	3Q22	3Q23	% chg	Comments
Infrastructure	1,058	1,072	1.3%	Higher energy demand. 100% of customers are locked in on fixed rates or indexation for 2 years. Fuel costs are hedged and costs are passed through.
Real Estate	258	119	-53.9%	33.8% decline in home unit sales, with slower take up in China and zero sale in Vietnam.
Connectivity	344	365	6.1%	M1's enterprise revenue grew 29% YoY, along with the acquisition of a Malaysian ICT in late 2022. Data centre in Beijing achieved 100% utilisation at end Sep 2023.
Corporate	0	4.0	n.a.	
<b>Total revenue</b>	<b>1,660</b>	<b>1,560</b>	<b>-6.0%</b>	

Source: Company, PSR

### The Positives

**+ 3Q23 Infrastructure revenue grew 1.3% YoY, in spite of a volatile gas price and the implementation of temporary price control measures.** 100% of its customers for integrated power sales are locked in on fixed rates, or indexed electricity price plans, for next 2 years. This provides stability to 68% of the group's revenue. The fuel input costs are hedged, and costs are passed through, including the higher carbon taxes in 2024.

**+ M1 expanded customer base by 7.2% YoY to 2,548. It grew enterprise revenue by 29.4% YoY, due to the acquisition of a Malaysian ICT in late 2022.**

### The Negatives

**- Real estate 3Q revenue fell 53.9% YoY, as reflected in the weak property sentiment and rising interest rates.** 3Q23 home unit sales fell to 260 units in China (1H23: 1,200 units) and 160 units in India (1H23: 870 units). No sales were recorded in Vietnam for this year.

**- Net gearing rose to 0.89x from 0.86x at Jun 2023,** after the distribution of interim dividend.

### Outlook

Asset monetisation is expected to pick up from 4Q. The rig assets held under Asset Co are enjoying strong charter rates, underpinned by higher crude prices. We estimate the divestments of these assets could return cash of about S\$2.50/Keppel share to Keppel Corp.

**Upgrade to BUY due to recent price correction. We revised TP to S\$7.52 (from S\$7.70) to account for the distribution-in-specie of KREIT units.**

23 Oct 2023

### BUY (Upgraded)

LAST CLOSE PRICE	SGD 6.310
FORECAST DIV	SGD 0.330
TARGET PRICE	SGD 7.520
<b>TOTAL RETURN</b>	<b>24.4%</b>

### COMPANY DATA

BLOOMBERG CODE:	KEP SP
O/S SHARES (MN) :	1,762
MARKET CAP (USD mn / SGD mn) :	8112 / 11137
52 - WK HI/LO (SGD) :	7.46 / 4.25
3M Average Daily T/O (mn) :	3.74

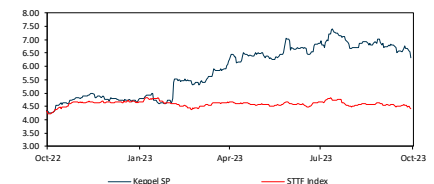
### MAJOR SHAREHOLDER (%)

TEMASEK HOLDINGS	21.0%
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### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(8.0)	(7.0)	52.3
STTF RETURN	(3.7)	(3.2)	7.2

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec (S\$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	6,611	6,620	6,542	6,914
EBIT	1,129	565	615	633
NPAT	1,023	927	3,985	942
Dividend yield	5.2%	5.2%	5.2%	5.2%
P/NAV (x)	1.0	1.0	1.4	1.3
P/E (x)	11.2	12.1	2.8	11.8
ROE (%)	10.6%	6.9%	8.6%	10.5%

Source: Company, PSR

### VALUATION METHOD

SOTP valuation

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## Financials

### Income Statement

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>6,574</b>	<b>6,611</b>	<b>6,620</b>	<b>6,542</b>	<b>6,914</b>
Materials and Subcontract costs	(4,591)	(5,082)	(5,174)	(5,103)	(5,393)
Staff costs	(1,120)	(665)	(668)	(654)	(691)
Depreciation and amortisation	(414)	(291)	(207)	(170)	(196)
Other items	(441)	556	(6)	-	-
<b>EBIT</b>	<b>8</b>	<b>1,129</b>	<b>565</b>	<b>615</b>	<b>633</b>
Investment income	29	105	49	36	80
Net finance expenses	(130)	(82)	(55)	(69)	(99)
Share of results of associates	(162)	459	536	580	621
<b>Profit before tax</b>	<b>(255)</b>	<b>1,611</b>	<b>1,095</b>	<b>1,162</b>	<b>1,235</b>
Taxation	(253)	(375)	(245)	(267)	(284)
Minority interests	2	16	5	3	2
Perpetual securities holders	0	(3)	(12)	(12)	(12)
<b>Net Profit</b>	<b>(506)</b>	<b>1,249</b>	<b>844</b>	<b>886</b>	<b>942</b>
Discontinued operations		(226)	83	3,099	
<b>Profit attributable to owners</b>	<b>(506)</b>	<b>1,023</b>	<b>927</b>	<b>3,985</b>	<b>942</b>

### Per share data (\$)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	5.86	6.41	6.29	4.50	4.86
DPS	0.10	0.33	0.33	0.33	0.33
EPS	(0.28)	0.56	0.52	2.26	0.53

### Cash Flow

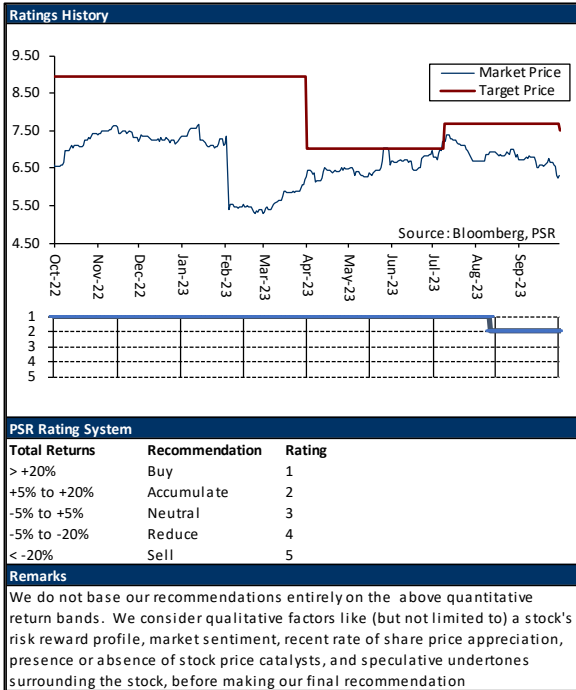
Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Pretax profit</b>	<b>290</b>	<b>1,611</b>	<b>1,095</b>	<b>1,162</b>	<b>1,235</b>
Adjustments	(251)	(1,283)	(773)	(377)	(406)
Working capital changes	595	(263)	426	146	54
<b>Cash generated from ops</b>	<b>633</b>	<b>65</b>	<b>747</b>	<b>931</b>	<b>883</b>
Others	(185)	(106)	(235)	38	54
<b>Cashflow from ops</b>	<b>448</b>	<b>(40)</b>	<b>512</b>	<b>969</b>	<b>937</b>
<b>CFI</b>					
CAPEX, net	(488)	(615)	(696)	(600)	(580)
Others	(32)	2,383	(249)	1,801	-
<b>Cashflow from investments</b>	<b>(519)</b>	<b>1,768</b>	<b>(946)</b>	<b>1,201</b>	<b>(580)</b>
<b>CFF</b>					
Dividend paid	(297)	(357)	(688)	(4,149)	(311)
Proceeds from borrowings, net	1,028	(674)	(308)	1,000	-
Proceeds from equity issuance	-	-	-	-	-
Others	(18)	385	(500)	-	-
<b>Cashflow from financing</b>	<b>713</b>	<b>(646)</b>	<b>(1,496)</b>	<b>(3,149)</b>	<b>(311)</b>
<b>Net change in cash</b>	<b>641</b>	<b>1,082</b>	<b>(1,929)</b>	<b>(980)</b>	<b>47</b>
Cash at the start of the period	2,008	2,408	3,544	1,445	163
Currency translation	(10)	53	(170)	-	-
Others	(232)	-	-	(302)	-
<b>Ending cash</b>	<b>2,408</b>	<b>3,544</b>	<b>1,445</b>	<b>163</b>	<b>210</b>

Source: Company, PSR estimates

n.m. not meaningful

### Balance Sheet

Y/E Dec, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE & Investment Properties	6,973	6,830	5,501	5,931	6,315
Others	10,745	10,647	10,554	13,924	14,205
<b>Total non-current assets</b>	<b>17,717</b>	<b>17,477</b>	<b>16,055</b>	<b>19,855</b>	<b>20,520</b>
Cash and cash equivalents	2,480	3,617	1,142	163	209
Stocks	4,959	4,604	2,301	2,111	2,151
Contract assets	2,657	3,170	256	256	256
Others	4,292	2,399	1,620	1,973	2,040
<b>Total current assets</b>	<b>14,389</b>	<b>14,318</b>	<b>5,319</b>	<b>4,503</b>	<b>4,656</b>
Assets - held for sale	1,009	528	9,561	-	-
<b>Total Assets</b>	<b>33,115</b>	<b>32,323</b>	<b>30,935</b>	<b>24,358</b>	<b>25,176</b>
<b>LIABILITIES</b>					
Trade and other payables	4,604	4,957	2,786	2,679	2,839
ST borrowings	4,433	4,659	3,578	4,578	4,578
Others	3,050	2,219	772	781	798
<b>Total current liabilities</b>	<b>12,086</b>	<b>11,835</b>	<b>7,136</b>	<b>8,037</b>	<b>8,214</b>
LT borrowings	7,607	6,796	6,603	6,603	6,603
Others	1,026	1,174	1,058	1,058	1,058
<b>Total non-current liabilities</b>	<b>8,748</b>	<b>8,008</b>	<b>7,662</b>	<b>7,662</b>	<b>7,662</b>
Liabilities - held for sale	115	38	4,224	-	-
<b>Total liabilities</b>	<b>20,950</b>	<b>19,882</b>	<b>19,022</b>	<b>15,699</b>	<b>15,876</b>
<b>EQUITY</b>					
Share Capital	1,306	1,306	1,306	1,306	1,306
Treasury shares	(14)	(5)	(456)	(456)	(456)
Retained profits	9,436	10,354	10,329	7,077	7,720
Others	10,728	11,655	11,178	7,927	8,570
Others	427	786	735	732	730
<b>Total equity</b>	<b>11,156</b>	<b>12,441</b>	<b>11,913</b>	<b>8,659</b>	<b>9,300</b>
<b>Total equity and liabilities</b>	<b>32,106</b>	<b>32,323</b>	<b>30,935</b>	<b>24,358</b>	<b>25,176</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	-22.8	11.2	12.1	2.8	11.8
P/B (x)	1.1	1.0	1.0	1.4	1.3
EV/EBITDA (x)	50.1	13.6	26.2	28.2	26.6
Dividend yield (%)	1.6%	5.2%	5.2%	5.2%	5.2%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-13.3%	0.6%	0.1%	-1.2%	5.7%
EBITDA	-66.3%	236.9%	-45.7%	1.7%	5.7%
EBIT	-99.1%	nm	-50.0%	8.9%	2.9%
PBT	-126.7%	nm	-32.0%	6.1%	6.3%
<b>Margins</b>					
EBITDA margin	6.4%	21.5%	11.7%	12.0%	12.0%
EBIT margin	0.1%	17.1%	8.5%	9.4%	9.2%
<b>Net profit margin</b>	<b>-7.7%</b>	<b>18.9%</b>	<b>12.7%</b>	<b>13.5%</b>	<b>13.6%</b>
<b>Key Ratios</b>					
ROE	-4.4%	10.6%	6.9%	8.6%	10.5%
ROA	-1.6%	3.8%	2.7%	3.2%	3.8%
Net Gearing (%)	85.7%	63.0%	75.9%	127.2%	118.0%



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